

Message Text

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ACTION EUR-12

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USEEC

PARIS ALSO FOR USOECD

E.O.11652:GDS
TAGS: EFIN, EEC
SUBJECT: EC CONCERTED ACTION ON THE EVE OF THE BREMEN
SUMMIT

1. THE EC SHORT-TERM COORDINATING GROUP MET JUNE 30 TO DISCUSS THE COMMUNITY CONCERTED ACTION PROGRAM, AND SET THE STAGE FOR THE BREMEN SUMMIT.
2. ACCORDING TO PERMREP AND COMMISSION SOURCES, THE COMMISSION PAPER LAYING OUT PROPOSED ACTIONS BY INDIVIDUAL MEMBER STATES WAS GIVEN A FAVORABLE RECEPTION, BUT THE GERMAN REPRESENTATIVES WOULD NOT AGREE TO IT BEING GIVEN ANY OFFICIAL BLESSING. INSTEAD IT WILL BE FORWARDED TO THE BREMEN COUNCIL AS A COMMISSION DOCUMENT. THE COMMISSION PAPER STILL PLACES THE MAIN BURDEN FOR ACTION ON GERMANY, WHICH IT PROPOSES SHOULD TAKE MEASURES AMOUNTING TO ABOUT 1 1/4 PERCENT OF GNP. THE REMAINDER WOULD BE SHARED AMONG THE OTHER MEMBER STATES.

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3. AS PIECED TOGETHER FROM VARIOUS SOURCES, THE MEETING LEFT THE FOLLOWING IMPRESSIONS OF PROSPECTS FOR ACTION BY INDIVIDUAL COUNTRIES: GERMANY - THE GERMAN REPRESENTATIVE AT THE MEETING (SCHLECT) TOLD THE GROUP THAT THERE COULD BE NO GERMAN STIMULATORY ACTION TO TAKE PLACE IN 1978. USE OF THE FEDERAL GOVERNMENT'S AUTHORITY UNDER

THE ECONOMIC STABILIZATION LAW TO ADJUST TAX RATES BY UP TO 10 PERCENT HAD BEEN RULED OUT. HOWEVER, GERMANY WOULD BE PREPARED TO MAKE A MAJOR CONTRIBUTION THROUGH A COMMITMENT TO TAKE MEASURES AMOUNTING TO ABOUT 1 PERCENT OF GNP IN 1979. MEASURES UNDER CONSIDERATION INCLUDE INCOME TAX REFORM AMOUNTING TO A NET REDUCTION OF ABOUT DM 10 BILLION, INCREASES IN FAMILY ALLOWANCES, REDUCED LOCAL GOVERNMENT COMPANY TAX BURDENS, AND AN INCREASE BY 1 PERCENT IN THE PLANNED GROWTH OF PUBLIC EXPENDITURES, MAINLY INVESTMENT PROJECTS. SCHLECT WARNED THE GROUP THAT GERMANY SHOULD NOT BE PRESSED FOR AN EARLIER OR LARGER EFFORT, NOR WOULD IT BE POSSIBLE TO SPECIFY PRECISELY THE CONTENT OF THE PROGRAM AT THE SUMMIT.

4. BELGIUM AND THE NETHERLANDS BOTH INDICATED THAT THEIR BOOKS WERE NOT CLOSED ON ECONOMIC POLICY THIS YEAR, AND THEY ARE STILL PREPARED TO MAKE A POSITIVE CONTRIBUTION. THE DIRECTION OF RECENT POLICY ADJUSTMENTS IN BOTH COUNTRIES HAS BEEN RESTRICTIVE, BUT THE COMMISSION STILL ANTICIPATES A NET POSITIVE POLICY THRUST IN EACH ("ONE STEP BACK, TWO FORWARD"). FRANCE TOOK A VERY GUARDED POSITION, POINTING OUT THAT ITS BUDGET DEFICIT WAS ALREADY EXPECTED TO BE VERY LARGE. MOST SOURCES DO NOT NOW ANTICIPATE A VERY SUBSTANTIAL CONTRIBUTION FROM FRANCE.

5. OTHER COUNTRIES ARE NOT EXPECTED TO ADD ANY SIGNIFICANT
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NET STIMULUS. IT IS GENERALLY ACCEPTED THAT THE UK HAS EXHAUSTED ITS ROOM FOR MANEUVER - ITS CONTRIBUTION TO CONCERTED ACTION IS IN THE PAST. ITALY'S CONTRIBUTION WILL LIKELY BE IN THE FORM OF MEASURES TO SHIFT THE COMPOSITION OF DEMAND OUT OF CONSUMPTION AND TOWARDS INVESTMENT.

6. KEY COMMISSION SOURCES ARE RELUCTANT TO SPECULATE ON THE OVERALL SIZE OF THE EC CONCERTED ACTION PACKAGE. THEY ARGUE THAT FINAL DECISIONS HAVE NOT BEEN TAKEN, AND WILL DEPEND, IN LARGE MEASURE, ON THE KIND OF COMMITMENTS OTHERS ARE WILLING TO MAKE, BOTH AT BREMEN AND BONN, IN THE AREAS PARTICULARLY OF EC MONETARY ARRANGEMENTS, ANTI-PROTECTIONISM, TRADE POLICY (JAPAN) AND ENERGY POLICY (US).
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